



Review of San Mateo County Purchasing Division

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Summary

The Grand Jury investigated whether the San Mateo County Purchasing Division effectively and efficiently performs its function with adequate safeguards. The County budget indicates that the Purchasing Division, through its buyers, was responsible for purchase requests totaling approximately \$39,000,000 of goods and services in the fiscal year 2002-2003. The efficient operation of this department should benefit the County by providing:

- Cost savings
- Improved product selection
- Better vendor control
- Improved internal control over purchases
- Timely receipt of purchases

The Purchasing Division negotiates specific requests for goods and services on behalf of other departments of County government. They also negotiate contracts for recurring needs of goods such as office supplies, uniforms and various other ongoing commodities.

The Grand Jury found that while the Department is generally perceived to do a good job, both its function and the controls on purchasing regulations are hampered by an outdated computer system. The Grand Jury also found that ongoing education of the Customers is needed and that regular Customer feedback should be solicited.

Among the recommendations made by the Grand Jury are that the Purchasing Division should:

- Provide the Controller with input that would allow for providing reports that would improve controls.
- Survey all departments for suggestions for expansion of vendor agreements for recurring needs and aggressively negotiate such agreements.
- Conduct formal training sessions to improve communications and order processing.
- Provide buyers with formal education or training in their respective specialty areas.

The Grand Jury also recommended that the Controller should, through its Internal Audit Department, conduct audit of each Department to which purchasing authority has been delegated as provided for in the County codes.



Review of San Mateo County Purchasing Division

Issue

Does the San Mateo County Purchasing Division effectively and efficiently perform its function with adequate safeguards?

Background

The San Mateo County budget indicates that the Purchasing Division through its buyers was responsible for the purchase requests totaling approximately \$39,000,000 of goods and services in the fiscal year 2002-2003. The efficient operation of this department should benefit the County by providing:

- Cost savings
- Improved product selection
- Better vendor control
- Improved internal control over purchases
- Timely receipt of purchases

The Grand Jury interviewed various employees involved with the purchasing function and moderated a focus group of County employees with various departmental purchasing responsibilities (Customers) requiring regular interaction with the Purchasing Division. The Grand Jury also reviewed Purchasing Division operating manuals, reports of other grand juries and available literature about the purchasing function.

Findings

The Purchasing Division is within the Employee and Public Services Department and provides centralized procurement of materials, goods, supplies and furnishings for County departments and partner agencies within the County. In most instances, the services provided relate only to the purchase of goods and do not include services. The Purchasing Manager is also responsible for printing and interdepartmental mail services.

The Purchasing Division staff consists of four buyers, a salvage officer (whose duties are to sell surplus items) and an administrative assistant. Usually these positions are staffed with existing County employees that have several years experience working in the County. Each buyer is assigned several areas of focus (i.e., furniture, office supplies, automotive supplies). Expertise in their respective areas is generally gained on the job and not from formal training or education. As a result, the Grand Jury was told, buyers are not always able properly to evaluate the appropriateness of requests for purchases from a single source (a “sole source”¹ purchase).

With the exception of some furniture and modular office enclosures, the Purchasing Division does not warehouse inventory and does not maintain inventory records for any of its Customer departments. It is not responsible for receiving goods or services on behalf of Customers, or payment for goods or services. It places orders from Customer departments and negotiates vendor agreements for recurring purchases. The Customer department requesting the goods is responsible for verifying receipt of the goods and authorizing payment. If there is a problem with the delivery or quality of goods, the requesting Customer department may decide to involve the Purchasing Division in resolving the matter.

Vendor Agreements

The Purchasing Division negotiates and administers contracts that allow recurring purchases by County departments. These contracts establish fixed prices for specified goods. While the contracts are for periods of two to four years, the County may renegotiate prices at any time. Purchases made by Customer departments under these contracts yield consistent favorable pricing for specific products without the necessity of obtaining price quotes each time a specific product is purchased. Customer departments believe these agreements serve both the Customers departments and the Purchasing Division well. The Customers departments report there have been no chronic problems with vendors who have negotiated these agreements.

Purchasing Limits and Approvals

Customer departments may purchase goods and services in amounts up to \$5000 on a single purchase order and up to \$5000 per year per vendor without using the services of the Purchasing Division. Customer departments establish their own policies and procedures to ensure purchases are fair, open, competitive and timely for these purchases. Purchase orders amounting to \$5000 or more require price quotes or formal bids/proposals to be obtained by the Purchasing Division. All such purchase orders must also be submitted for processing through the Purchasing Division. Each Customer department has one or more purchasing representatives who processes purchase requests and obtains approvals within the departments. Any purchase order over \$100,000 requires approval by the Board of Supervisors.

¹ There is only one *specific* supply or service that can reasonably meet your need;
There is only one vendor who can reasonably provide that supply or service

Order Processing

Customer departments request goods and services on purchase orders submitted to the Purchasing Division via computer, on paper or even verbally. Purchase orders should provide the following information:

- Product specifications
- Quantity
- Time requirements
- Appropriate authorizations
- “Ship To” information

The quality, timeliness, and completeness of order information are not formally measured, or mechanically edited. Buyers routinely must follow-up with Customer departments because many purchase orders lack all the required information. Much of this follow-up is by telephone, and “telephone tag” is common.

Customer departments may submit purchase orders valued under \$5000 directly to vendors with whom the County has a vendor agreement. The Purchasing Division has no direct involvement with these orders.

Vendor Bills

Vendors send invoices directly to the Customer department that ordered the goods or services, regardless of whether the order was sent directly by the Customer or was sent from the Purchasing Division. The Customer department must verify that the pricing and terms of the invoice are correct, and that the goods or services have been received. Adhering to budget limitations for purchases and restrictions on the purchase amounts (per order or cumulative per year) from a vendor are the responsibility of the Customer department.

Computer System

The Integrated Financial Accounting Solutions (IFAS) system, the County’s accounting system managed by the Controller, has a module that supports the purchasing function. IFAS was originally designed in the 1960’s. While the system has been updated over the years, it is far from leading edge technology. The most recent updates for the purchasing module have not been acquired. The dated program structure and the integration of the purchasing module with the accounting system makes any program modifications difficult if not impossible to accomplish. Any updates to any of the IFAS modules are the financial responsibility of the Controller. If special reports are required by the Purchasing Division, the Controller’s staff must be requested to take the necessary steps to generate them.

The accounting system classifies the accounting data associated with purchases and “books” the expenses, but does not utilize any edits to match pricing or terms to purchase orders, even though the information may be in the system. The current purchasing module in IFAS does not verify that purchases over \$5000 per year per

vendor have purchase orders, does not compare pricing to vendor agreements, does not aggregate purchases by vendor to ensure compliance with County policies, and does not identify possible order splitting that may occur to avoid the \$5000 limit. While the IFAS system is scheduled to be updated in the fall of 2004, the Grand Jury was not able to ascertain if the purchasing module would also be updated.

Customer Education

The Purchasing Division publishes a *Purchasing Customer Guide* that documents procedures, guidelines, requirements and laws related to the purchasing function. A representative from the Purchasing Division also occasionally spends one-on-one training time with Customer department employees to assist them in understanding and learning the County purchasing procedures. Some group-training sessions have been held, but they are infrequent with none having been held in the past two years.

Customer Perceptions and Observations

Customers of the Purchasing Division generally believe it does a good job within its staffing constraints; it does a good job negotiating prices, terms, and conditions; but there are too few vendor agreements and it takes too long to negotiate new contracts. Some Customers complain of delays in processing orders or difficulty working with an individual buyer.

Purchasing Division Perceptions and Observations

The Purchasing Division observes that Customer departments frequently experience internal delays obtaining approvals before submitting requests for purchases. These delays in turn may require the Purchasing Division to expedite an order or be unsuccessful in meeting the customer's desired delivery date. This often leads a Customer department to place blame on the Purchasing Division as being unresponsive or slow.

The purchasing module of the computer system does not retain the preparation date and approval date of purchase orders. There is no system measure of each of the process steps to determine exactly what step of the process is causing the delays. The Purchasing Division believes it is expected to process orders without adequate time to perform the most effective and efficient service.

The Purchasing Division also believes that many Customer departments assign the purchasing task to entry-level inexperienced employees. This leads to a high turnover rate as employees move on to more responsible positions with transfers or promotions. The Purchasing Division frequently deals with untrained or under trained Customer department employees, often making orders more difficult or time consuming to process because of the need for error correction and data clarification.

Buyers report various degrees of cooperation by Customer departments to comply with County purchasing regulations. They believe some Customer departments would prefer to act autonomously and often take action to circumvent the rules.

San Mateo County Code Sec 1.92.020 requires that the Controller periodically conduct audits of the purchasing function and provide these audit findings to the County Manager. The Purchasing Division seems unaware of this Internal Audit Department obligation and has no knowledge of any audits to assure compliance with purchasing regulations.

Conclusions

Vendor contracts provide good control at reasonable costs for both Customer departments and the Purchasing Division. The ongoing relationship with vendors provides ease of ordering, billing, and control of pricing. An increase in the number of these vendor agreements would benefit the County financially as well as streamline business processes. Buyers in the Purchasing Division should have ongoing access to data regarding departmental purchases, product volumes and expenditures, associated with these vendor agreements for analysis and possible timely renegotiation of prices and terms.

Without measurements of order quality, completeness and timeliness, the Purchasing Division may be required to spend excessive time clarifying and completing order information with Customer departments and additional time with vendors learning what specifications are necessary. Electronic data entry and order processing would improve the efficiency of this business process immensely.

While there is a manual explaining the County purchasing regulations, it does not adequately detail the information that the Purchasing Division needs to fulfill an order. Without a formal training program for Customer department employees with purchasing responsibilities, the efficiency of this business process suffers.

The purchasing module of the computer system is outdated and inadequate to efficiently meet the needs of the County for purchases of goods. It does not provide any initial ordering edits to ensure that all necessary information is on the order and that appropriate approval levels and volume and price parameters have been met. This becomes a manual burden on the buyers in the Purchasing Division that precludes them from being as efficient and effective as they can be to continue obtaining favorable pricing and expense savings for the County. The significant level of manual processing in the purchasing function invites a high error level and bogs down the timely delivery of goods.

Recommendations

1. The Board of Supervisors should ensure that funding for the upgrades to the IFAS system includes a new purchasing module that is installed concurrent with the new accounting system modules.
2. The Controller should evaluate the IFAS purchasing model and ensure electronic order entry is installed, including purchase order submission edits prior to downstream processing.
3. The Board of Supervisors should direct the Purchasing Division to:
 - 3.1 Provide the Controller with input to the order entry edits that would be appropriate on purchase orders, and with types of reports the system should generate for Purchasing Division analysis, and evidence of non-compliance with County policy.
 - 3.2 Survey all departments for suggestions to expand the types of goods that may be purchased using vendor agreements, and document a plan to aggressively negotiate these agreements.
 - 3.3 Update the purchasing guidelines to require electronic forms of purchase order submission and e-mail for communications regarding order clarifications or problems.
 - 3.4 Conduct formal training sessions for all new Customer purchasing representatives at least two times per year.
 - 3.5 Conduct a focus group at least once per year for discussion of process improvements and feedback between the Purchasing Division and Customer departments.
 - 3.6 Provide buyers formal education or training in their respective specialty areas.
4. The Controller should, not less frequently than annually, through its Internal Audit Department, comply with Section 2.92.020(c) of the County Codes, which states “The Controller shall periodically conduct an audit of each Department to which purchasing authority has been delegated and shall submit a copy of any audit findings to the County Manager.



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: July 19, 2004

BOARD MEETING DATE: July 27, 2004

TO: Honorable Board of Supervisors
FROM: John L. Maltbie, County Manager
SUBJECT: 2003-04 Grand Jury Responses

Recommendation

Accept this report containing responses to 2003-2004 Grand Jury recommendations on the following: Sexual Assault Cases in San Mateo County; Grand Jury Whistleblower Recommendation; San Mateo Medical Center Billings and Collections; and San Mateo County Purchasing Division.

Discussion

The 2003-2004 Grand Jury issued reports on Sexual Assault Cases in San Mateo County on April 29, 2004; Grand Jury Whistleblower Recommendation on May 3, 2004; San Mateo Medical Center Billings and Collections on May 27, 2004; and the San Mateo County Purchasing Division on June 10, 2004. The County is mandated to respond to the Grand Jury within 90 days from the date that reports are filed with the County Clerk and Elected Officials are mandated to respond within 60 days. The report pertaining to Sexual Assault Cases requires direct responses from the Sheriff and the District Attorney. Reports pertaining to Medical Center Billings and Collections and the Purchasing Division require direct responses from the Controller's Office. Combined responses from the County and the Controller's Office have been prepared for the Purchasing Division and Medical Center Billings and Collections.

Vision Alignment

This response to the Grand Jury's findings and recommendations keeps the commitment of responsive, effective and collaborative government through goal number 20: Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain.

San Mateo County Purchasing Division

Findings:

Generally agree with findings.

Recommendations:

- 1. The Board of Supervisors should ensure that funding for the upgrade to the IFAS system includes a new purchasing module that is installed concurrent with the new accounting system modules.**

Response: Concur The Controller plans to complete an upgrade to the IFAS system during FY 2004-05. This upgrade includes an upgrade of the purchasing module.

- 2. The Controller should evaluate the IFAS purchasing module and ensure electronic order entry is installed, including purchase order submission edits prior to downstream processing.**

Response: Concur. After implementation of the IFAS upgrade during FY 2004-05, Employee and Public Services and the Controller will seek funding from the Board of Supervisors to evaluate the ability of the purchasing module to meet the requirements of this recommendation.

- 3. The Board of Supervisors should direct the Purchasing Division to:**

- 3.1 Provide the Controller with input to the order entry edits that would be appropriate on purchase orders, and with types of reports the system should generate for Purchasing Division analysis, and evidence of non-compliance with County policy.**

Response: Concur. The Purchasing Manager will work closely with the Controller's staff to evaluate the impact of the IFAS upgrade to be implemented in FY 2004-05, and to identify any additional information requirements.

The Purchasing Division and the Controller work together regularly on the functionality of the IFAS purchasing module. For example, Controller's staff has attended Purchasing staff meetings twice in the last eighteen months. Likewise, the Purchasing Manager is an active member of the Controller's IFAS Steering Committee.

- 3.2 Survey all departments for suggestions to expand the types of goods that may be purchased using vendor agreements, and document a plan to aggressively negotiate these agreements.**

Response: Concur. Purchasing will incorporate this recommendation into its annual survey of departmental purchasing representatives. Additionally,

departmental purchasing representatives will be reminded that they can request a vendor agreement any time the department believes it would be beneficial. The current Purchasing Customer Guide provided to all department purchasing representatives encourages departments to request a new vendor agreement anytime a department's annual spending on a commodity exceeds \$5,000 and/or requires a minimum of 12 purchases per year. The Purchasing Manager emphasizes this at all training sessions and the Buyers routinely receive and process these requests.

In the last fiscal year the Purchasing Manager has met with the following departments to analyze their overall vendor agreement strategy: Sheriff's Office (bio-terrorism commodities, general commodities), San Mateo Medical Center (food commodities, general commodities), Public Health (food commodities), Information Services (computers, servers, cell phones, general commodities), Court (files, general commodities), and the Human Services Agency (printing needs not provided by the Copy Center).

3.3 Update the purchasing guidelines to require electronic forms of purchase order submission and e-mail for communications regarding order clarifications or problems.

Response: Concur. We agree that e-mail and/or electronic notification/communication of submissions and approvals will benefit the system and speed up the purchasing process. The Controller expects that the new IFAS purchasing upgrade will include this technology.

Once the FY 2004-05 IFAS upgrade is implemented, Purchasing will update its guidelines accordingly.

3.4 Conduct formal training sessions for all new Customer purchasing representatives at least two times per year.

Response: Concur. In calendar year 2003, Purchasing provided the following training:

Date	Course Title	# of Attendees
01/14/03	Purchasing Process and Procedure	57
02/19/03	Automated Vendor Agreement System (AVAS) Training	30
06/24/03	Purchasing Process and Procedure	40

The Purchasing Process and Procedure training will next be offered on September 22, 2004, and the AVAS training will next be offered on September 29, 2004. These courses will be repeated again in the spring of 2005.

Additionally, specialized training is offered to individual departments on a departmental request basis. Purchasing is discussed in terms of issues important to that department as well as in the context of countywide policy and procedure.

In the last two years these training sessions have been conducted with the Sheriff's Office, the Human Services Agency, Probation, and the San Mateo Medical Center. Information Services and Public Health have expressed interest in scheduling this training before the end of 2004.

In addition, Purchasing personnel work with departmental staff on a daily basis, offering guidance on County purchasing policy and procedure.

3.5 Conduct a focus group at least once per year for discussion of process improvements and feedback between the Purchasing Division and customer departments.

Response: Concur. Purchasing includes time for discussion of improvements and feedback at all its Departmental training sessions. (See the response to 3.4 above).

3.6 Provide buyers formal education or training in their respective specialty areas.

Response: Concur. Purchasing staff identify training/education opportunities that would be beneficial to them, and based on need and resources, are sent to these programs. Training will continue to be encouraged.

The following training has been completed in the past 18 months:

<p>April 2003 California Association of Purchasing Professionals (CAPPO) training – online procurement resources (1hour) Attended by Purchasing Manager and one Buyer</p>
<p>May 2003 CAPPO Purchasing Certification Training, modules 3 & 4 (16 hours) Attended by Purchasing Manager</p> <p>CAPPO Workshop to update statewide purchasing training curriculum (16 hours) Attended by Purchasing Manager</p> <p>California RecycleWorks Trade Show – “green” purchasing (8 hours) Attended by Purchasing Manager and two Buyers</p>
<p>July 2003 Bioterrorism Response Conference/Trade Show (8 hours) Attended by one Buyer</p>
<p>September 2003 Office Depot Training on implementation of new contract & vendor’s inventory and delivery capabilities (4 hours) Attended by two Buyers</p>

<p>October 2003 Federal GAO Session on availability of federal contracts to local governments (4 hours) Attended by Purchasing Manager and one Buyer</p> <p>CAPPO Purchasing Certification Training, modules 1 & 2 (16 hours) Attended by Purchasing Manager</p>
<p>January 2004 Via Factory Tour - trends in office chairs and furniture (8 hours) Attended by one Buyer</p> <p>Imagistics, Inc. Seminar – imaging and network technology (4 hours) Attended by two Buyers</p>
<p>February 2004 BiRite Food Show – food industry trends (8 hours) Attended by one Buyer</p>
<p>March 2004 NeoCom West Conference – workshops in textiles, healthcare, ergonomics (8 hours) Attended by one Buyer</p>
<p>March 2004 Via Factory Tour – trends in office chairs and furniture (6 hours) Attended by one Buyer</p> <p>Pleion Factory Tour – reviewed production, inventory, and delivery capabilities with County’s module office furniture vendor (8 hours) Attended by Purchasing Manager and one Buyer</p>
<p>April 2004 Pleion’s President toured several County buildings, interviewed several employees, and discussed ergonomic improvements with Purchasing Division (6 hours) Attended by Purchasing Manager and one Buyer</p>
<p>May 2004 CAPPO Training on effective contract negotiations (8 hours) Attended by Purchasing Manager and one Buyer</p>
<p>July 2004 Online Reverse Auctions (2 hours) Attended by Purchasing Manager and four Buyers</p>

- 4. The Controller should, not less frequently than annually, through its Internal Auditing Department, comply with Section 2.92.020(c) of the County Codes, which states “The Controller shall periodically conduct an audit of each Department to which purchasing authority has been delegated and shall submit a copy of any audit findings to the County Manager.**

Response: Concur in part. The Controller complies with the requirements of the Section 2.92.020(c) of the County Codes using an approach designed to cost effectively reduce risks associated with the purchasing function. The Controller conducts countywide surveys to identify potential risks related to the purchasing and payment cycle. The

results provide the Controller a basis for planning its purchasing related audit work. As part of the Controller's scheduled audits of departments, the Controller reviews internal controls over the purchasing function. The Controller coordinates with the Accounts Payable section of the Controller's Office to identify and follow up exceptions in accounts payable transactions that indicate significant internal control risks. All findings and recommendations are reported to the County Manager.

The Internal Audit Division complies with the professional standards for the practice in Internal Audits. Section 2000 of the Institute of Internal Auditors (IIA) standards states that a risk-based assessment should be used to determine the priorities of the internal audit activity. Accordingly, all audit work performed by the Internal Audit Division, with the exception of mandated audits, are based on risk analysis.

The Controller agrees that purchasing functions performed by County Departments should be audited; however, the frequency and the scope of such audits should be based on the results of risk analysis rather than a pre-determined schedule.

August 9, 2004

Honorable Jonathan E. Karesh
Judge of the Superior Court
Hall of Justice & Records
400 County Center
Redwood City, CA 94063

Dear Judge Karesh:

Below is the Controller's response to the Grand Jury's recommendation:

Recommendation 4

The Controller should, not less frequently than annually, through its Internal Audit Department, comply with Section 2.92.020(c) of the County Codes, which states "The Controller shall periodically conduct an audit of each Department to which purchasing authority has been delegated and shall submit a copy of any audit findings to the County Manager."

Response – by Controller

We comply with the requirements of the Section 2.92.020(c) of the County Codes using an approach designed to cost effectively reduce risks associated with the purchasing function. We conduct countywide surveys to identify potential risks related to the purchasing and payment cycle. The results provide us basis for planning our purchasing related audit work. As part of our scheduled audits of departments, we review internal controls over the purchasing function. We also coordinate with the Accounts Payable section of the Controller's Office to identify and follow up exceptions in accounts payable transactions that indicate significant internal control risks. All our findings and recommendations are reported to the County manager.

The Internal Audit Division complies with the professional standards for the practice in Internal Audits. Section 2000 of the Institute of Internal Auditors (IIA) standards states that a risk-based assessment should be used to determine the priorities of the internal

audit activity. Accordingly, all audit work performed by the Internal Audit Division, with the exception of mandated audits, are based on risk analysis.

We agree that purchasing functions performed by County Departments should be audited however, the frequency and the scope of such audits should be based on the results of risk analysis rather than a pre-determined schedule.

Sincerely,

Tom Huening
Controller

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